

February 11, 2022

Mayor James Matayoshi
Rongelap Atoll Local Government
Republic of the Marshall Islands

Dear Mayor Matayoshi:

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Rongelap Atoll Local Government (RALGOV) for the year ended September 30, 2016, which collectively comprise RALGOV's basic financial statements and on which we have issued our report dated February 11, 2022, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, we considered RALGOV's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of RALGOV's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of RALGOV's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to RALGOV's internal control over financial reporting and other matters as of September 30, 2016 that we wish to bring to your attention.

We have also issued a separate report to RALGOV, also dated February 11, 2022 on our consideration of RALGOV's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

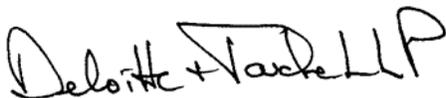
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of management, the Council, others within the organization, and the Office of the Auditor-General and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of RALGOV for their cooperation and assistance during the course of this engagement.

Very truly yours,



SECTION I - CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving RALGOV's internal control over financial reporting as of September 30, 2016 that we wish to bring to your attention:

(1) Beginning Fund Balance

The beginning fund balance did not agree with the audited balance as of September 30, 2015 resulting in a \$3,000 difference. We recommend management establish internal control policies and procedures requiring beginning fund balances be reconciled.

(2) Capital Assets

Documentation supporting RALGOV's performance of fixed asset inventories was not available. In addition, government-owned vehicles and equipment lack a RALGOV seal. We recommend management establish internal control policies and procedures requiring the performance of periodic physical capital asset counts, the maintenance of supporting count documentation, and consider identifying RALGOV vehicles and equipment with the RALGOV seal. This matter was discussed in our previous letters to management for the audits of fiscal years 2012 through 2015.

(3) Bank Reconciliations

As of September 30, 2016, bank reconciliations included outstanding checks of \$212,449, which included items amounting to \$100,543 that represented stale-dated checks. Furthermore, bank reconciliations were not timely reviewed to facilitate agreement with general ledger balances. We recommend management establish internal control policies and procedures requiring the performance of timely bank reconciliations and investigate long outstanding checks to determine an appropriate course of action. This matter was discussed in our previous letters to management for the audits of fiscal years 2011 through 2015.

(4) Expenditures

Tests of non-payroll expenditures for the year ended September 30, 2016 noted the following:

- General Fund:
 - a. TA709-A for additional per diem of \$350 lacked supporting travel documents, including relevant boarding passes.
 - b. Check # 47350 issued for medical assistance of \$250 lacked identification supporting the request.
 - c. Check # 48365 issued for a death donation of \$3,000 lacked copy of death certificate to support the claim request. The check donation was cashed by a RALGOV employee for the purpose of providing the cash to the beneficiary. However, the transaction lacked documentation such as a remittance slip evidencing that the donation was received by the beneficiary.
 - d. The Mayor is entitled to an annual housing allowance of \$12,000; however Section 102h (iii) of the RepMar Income Tax Act of 1989 requires that housing allowances in excess of \$9,000 be subject to the withholding of tax. Documentation supporting the withholding and payment of the required tax was not available.
 - e. JV2016-172 and JV2016-167 lacked reviewer's signature to evidence independent review.

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(4) Expenditures, Continued

- Resettlement Phase One:
 - a. Purchase Requisition # 12451 for \$34,125 lacked independent reviewer's signature.
 - b. Check # 8597 issued for airfare expenditure of \$3,039 lacked supporting travel documents, including relevant boarding passes.
 - c. JV2016-177B to record \$37,443 of legal services related to ATMI operation, an affiliated company, lacked reviewer's signature to evidence independent review. Furthermore, certain of these legal services amounting to \$15,476 were incurred in fiscal year 2016 yet were recorded and paid in fiscal year 2017. An audit adjustment was proposed to correct this matter.
 - d. A check supported by invoice # 038 in the amount of \$310 was voided and reversed; however, copy of voided check was not on file.

We recommend management establish internal control policies and procedures requiring expenditures be appropriately approved by independent review and be supported by pertinent documentation evidencing the nature of the transaction.

(5) Payroll

Tests of payroll expenditures for the year ended September 30, 2016 noted the following:

- a. RALGOV does not maintain timesheets to evidence employee working hours. Furthermore, employee absences are not supported by exception reports on job performance. Accordingly, we were unable to verify appropriate monitoring of personnel working hours as an alternative basis for not preparing timesheets.
- b. Salaries costs of \$1,777 were charged to a federal grant under a subgrantee agreement but lacked timesheets. In addition, timesheets of several workers lack signature of worker and supervisor signature evidencing independent review.
- c. Three RALGOV employees were designated under the pearl farm project. However, these employees worked for the fishing project operated by Aquaculture Technologies of the Marshall Islands (ATMI), an affiliated company. Adequate written documentation including terms and scope of RALGOV's employees' participation with ATMI's operation were not available for examination.
- d. One employee had an additional salary of \$400 for one pay period due to increase in working hours; however, no timesheet and signed memo was on file evidencing the basis and approval of such increase.
- e. Of thirteen Personnel Action Forms tested, six did not evidence approval of pay rate increase.

Written exception reports on job performance were not available. Thus, we were not able to verify appropriate monitoring of personnel working hours as an alternative basis for not preparing timesheets. Executive memo 2008-01 orders submission of exception reports on employee job performance on a monthly basis.

We recommend management revisit the payroll process and verify that payroll processing is adequately documented and properly filed.

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(6) Allowance for Doubtful Accounts

Adequate documentation evidencing that RALGOV performs a periodic assessment of doubtful accounts was not on file. We recommend RALGOV perform assessments of doubtful accounts to determine the adequacy of allowance provision. This matter was discussed in our previous letters to management for the audits of fiscal years 2014 and 2015.

(7) Rongelap Bungalows

Rongelap Bungalows did not record inventories at year-end. Cost of sales were not properly recognized. Store supplies were directly recognized as expenditure upon purchase without monitoring of unsold items at year-end. We recommend management establish internal control policies and procedures requiring the recording of inventories and the recognition of cost of sales. This matter was discussed in our previous letters to management for the audits of fiscal years 2013 through 2015.

(8) Journal Entries

Manual journal entries lack preparer's and reviewer's signatures to support independent review. We recommend management establish internal control policies and procedures over the preparation and review of journal entries. This matter was discussed in our previous letters to management for the audits of fiscal years 2013 through 2015.

(9) Distributions

Additional names were included in the original list of exposed Rongelapese; however, no documentation was available to support approval of Executive Council to amend the original list. We recommend management establish internal control policies and procedures over the approval process for changes made on the original list of exposed Rongelapese. This matter was discussed in our previous letters to management for the audits of fiscal years 2014 and 2015.

SECTION II - OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

(1) Segregation of Duties

RALGOV's current level of staffing limits the number of personnel available for accounting duties. Accordingly, appropriate segregation of duties is not always possible which may result in a weakness in internal controls, specifically in the role of the City Manager who has access to assets, has approving authority for disbursements, and also has full access to accounting records. To mitigate this weakness, a critical element in RALGOV's internal control system is the close involvement of management in the day-to-day operations and close review of accounting activities and financial reports.

Furthermore, certain duties of the Chief Accountant are incompatible such as processing checks for claims payments and distribution of such to payees. We recommend that management establish controls to require rotation of the check distribution function among RALGOV staff.

We encourage close involvement of management on a continuing basis and thorough review of accounting activities and financial reports as a means to maintain effective internal controls until a more structured control environment becomes cost effective. This matter was discussed in our previous letters to management for the audits of fiscal years 2011 through 2015.

SECTION II - OTHER MATTERS, CONTINUED

(2) Sick Leave and Annual Leave Policy

There are currently no policies and procedures governing employee absences including sick leave and vacation leave. Employee paid time off is usually allowed by management. However, no policies are in place that establish limits and authorizations. Furthermore, mandatory vacation policy may be especially beneficial to RALGOV, being a small entity where certain employees may be handling incompatible duties. This would allow management to observe if there is any noticeable change while another person is performing the duties. We recommend that management establish vacation and sick leave policies. This matter was discussed in our previous letters to management for the audits of fiscal years 2011 through 2015.

(3) Amendments to Claims Trust Agreement

The original Trust Agreement was approved by the Government of the Marshall Islands (RepMar) through the Ministry of Finance and the Attorney General, as consistent with the Rongelap Agreed Minute, pursuant to Section 8 of the Article II of the Compact Section 177 Agreement. However, it appears that such approval was not obtained for the Amended Claims Trust Agreement. We recommend that management consult with legal counsel as to the need to obtain approval of the Amended Trust from RepMar. This matter was discussed in our previous letters to management for the audits of fiscal years 2011 through 2015.

(4) Reporting

Management reports were not available. We recommend management consider preparing management reports that assist management and executive officers to monitor financial transactions and that support a relevant and well-informed decision-making process. This matter was discussed in our previous letters to management for the audits of fiscal years 2011 through 2015.

(5) Local Noncompliance - Income Taxes

RepMar's Income Tax Act of 1989 requires employers to file and pay withholding income tax returns within two weeks following the preceding four-week period. RALGOV filed and paid withholding taxes for pay periods ended October 30, 2015 and November 13, 2015 on December 18, 2015, which exceeds the required deadline. We recommend management comply with the withholding tax returns reporting deadline. This matter was discussed in our previous letter to management for the audit of fiscal year 2015.

(6) Investments

RALGOV investment in insurance policy of \$55,067 lacks documentation verifying the cash surrender value supporting the outstanding balance as of September 30, 2016. We recommend management obtain and maintain on file investment statements supporting the cash surrender value of RALGOV's investment in insurance policy. This matter was discussed in our previous letters to management for the audits of fiscal years 2013 through 2015.

SECTION III - DEFINITIONS

The definition of a deficiency that is established in AU 325, Communicating Internal Control Related Matters Identified in an Audit, is as follows:

A deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

RALGOV's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.